

Message Text

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PAGE 01 SEOUL 03934 01 OF 02 111852Z

ACTION EA-12

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R 110445Z MAY 78

FM AMEMBASSY SEOUL
TO SECSTATE WASHDC 1003
INFO USMISSION GENEVA
AMCONSUL HONG KONG
AMEMBASSY TAIPEI
AMEMBASSY TOKYO

UNCLAS SECTION 01 OF 02 SEOUL 3934

E.O. 11652: N/A

TAGS: ECON, ETRD, EFIN, KS

SUBJECT: ECONOMIC GAINS PRESAGE A STRONG FIRST HALF

REF: SEOUL 3014

SUMMARY: KOREA'S ECONOMY CONTINUES TO MOVE FORWARD BRISKLY. INDUSTRIAL PRODUCTION WAS UP 24.3 PERCENT IN THE FIRST QUARTER COMPARED TO THE CORRESPONDING PERIOD IN 1977. CONSTRUCTION, PRIVATE AND INDUSTRIAL, CONTINUES TO BOOM BUT IS PRESSING ON RESOURCES OF MATERIALS AND LABOR. BOTH EXPORTS AND IMPORTS WERE UP 28.4 PERCENT IN THE FIRST FOUR MONTHS. AS A RESULT OF IMPORT GROWTH--AN ALL TIME RECORD OF \$1,141 MILLION WAS REGISTERED IN APRIL--THE TRADE DEFICIT WIDENED TO \$367 MILLION FOR THE FIRST FOUR MONTHS. WHILE LONG-TERM CAPITAL INFLOWS WERE UP, CONTINUED NET SHORT-TERM CAPITAL OUTFLOWS RESULTED IN A \$177 MILLION DROP IN FOREIGN EXCHANGE HOLDINGS. OFFICIAL INDICES SHOWED A LESSENING OF INFLATIONARY PRESSURES DURING APRIL WITH THE CONSUMER PRICE INDEX DOWN BY 0.1 PERCENT BUT OVERALL INFLATIONARY PRESURES REMAIN A SERIOUS PROBLEM.

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PAGE 02 SEOUL 03934 01 OF 02 111852Z

END SUMMARY

1. ALTHOUGH THE OVERALL WARNING INDICATOR FELL 0.1 POINT IN MARCH TO 1.8, ALL INDICATORS POINT TO A CONTINUING BRISK, IF NOT BOOMING, ECONOMY. INDUSTRIAL PRODUCTION ROSE 18.8 PERCENT (5.8 PERCENT SEASONALLY ADJUSTED) IN MARCH AND IS 24.3 PERCENT ABOVE THE FIRST QUARTER OF 1977. PRODUCTION

OF MACHINERY AND EQUIPMENT REMAINED IN THE FOREFRONT, UP 41.3 PERCENT OVER THE FIRST QUARTER OF LAST YEAR. OTHER ITEMS SHOWING ABOVE AVERAGE GAINS IN THE QUARTER WERE: PRIMARY METALS (28.6 PERCENT); WOOD PRODUCTS (26.7 PERCENT) AND PETROLEUM REFINING AND CHEMICALS (25.6 PERCENT). GROWTH IN THE TEXTILE AND APPAREL FIELD CONTINUED TO DEMONSTRATE BETTER THAN EXPECTED GROWTH (18.3 PERCENT).

2. THE CONSTRUCTION INDUSTRY, HOWEVER, REMAINS THE PACESETTER. TOTAL CONSTRUCTION PERMITS FOR THE FIRST QUARTER ARE UP 96.4 PERCENT OVER THE PREVIOUS YEAR, LED BY INDUSTRIAL CONSTRUCTION (163.3 PERCENT) AND HOUSING (99.8 PERCENT). FOR MARCH ALONE HOUSING PERMITS ROSE 195.3 PERCENT. THE CONSTRUCTION AND REAL ESTATE BOOM CONTINUES, HOWEVER, TO CAUSE PROBLEMS. THERE IS A GROWING SHORTAGE OF CEMENT, WITH THE GOVERNMENT SEEKING OUTSIDE SOURCES OF SUPPLY, AND STEEL REINFORCING BARS. WAGES OF CONSTRUCTION WORKERS ARE UP 50 TO 80 PERCENT COMPARED TO LAST YEAR AND DIFFICULTIES IN OBTAINING SUFFICIENT SKILLED WORKERS ARE INCREASING. AS A RESULT OF ROCKETING LAND PRICES--30 TO 40 PERCENT IN SEOUL OVER THE PAST FOUR MONTHS--AND INCREASED COSTS, PRICES OF SINGLE-UNIT HOUSES ARE REPORTED UP 80 PERCENT.

3. EXPORTS REMAIN STRONG. DESPITE A 4 PERCENT DECLINE OVER MARCH, THE \$1 BILLION RECORDED IN APRIL (\$1,057 MILLION UNCLASSIFIED

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PAGE 03 SEOUL 03934 01 OF 02 111852Z

SEASONALLY ADJUSTED) BROUGHT THE FOUR-MONTH TOTAL TO \$3,637 MILLION OR 29 PERCENT OF THE TARGETED \$12.5 BILLION. L/C ARRIVALS DECLINED 0.6 PERCENT IN APRIL, BUT THE FOUR-MONTH TOTAL IS 16.7 PERCENT OVER THE CORRESPONDING PERIOD LAST YEAR. ALTHOUGH THE GROWTH TREND FOR EXPORTS DOES APPEAR TO BE DECELERATING--THE FIRST FOUR MONTHS SHOW A 28.4 PERCENT GAIN OVER LAST YEAR WHILE DURING THE SAME PERIOD IN 1977 EXPORTS WERE 41 PERCENT ABOVE THE PREVIOUS YEAR--OFFICIALS REMAIN CONFIDENT THE TARGET CAN BE REACHED.

4. IMPORTS ALSO CONTINUE UPWARD. APRIL RECORDED AN ALL-TIME HIGH OF \$1,141 MILLION (\$1,048 MILLION SEASONALLY ADJUSTED) BRINGING THE TOTAL TO \$4,102 MILLION AT MONTH'S END OR 28.4 PERCENT OVER THE FIRST FOUR MONTHS OF 1977. EVEN MORE IMPRESSIVE IS THE 48 PERCENT GAINS IN IMPORT LICENSES FOR THE FIRST FOUR MONTHS, AUGURING WELL FOR INCREASED IMPORTS IN THE COMING MONTHS.

5. AS A RESULT OF IMPORT GROWTH THE TRADE DEFICIT FOR THE FIRST FOUR MONTHS INCREASED TO \$367 MILLION COMPARED TO \$191 MILLION DEFICIT IN 1977. SINCE INVISIBLES WERE IN SURPLUS BY \$174 MILLION AND WITH NET TRANSFER OF \$98 MILLION

FOR THE PERIOD, THE CURRENT ACCOUNT DEFICIT INCREASED SLIGHTLY TO \$95 MILLION COMPARED TO A \$65 MILLION DEFICIT IN THE CORRESPONDING PERIOD OF 1977. ALTHOUGH THE BASIC BALANCE WAS A STRONG \$475 MILLION AS A RESULT OF SIGNIFICANT LONG-TERM CAPITAL INFLOWS, NET SHORT-TERM CAPITAL OUTFLOWS RESULTED IN A \$177 MILLION DECLINE IN FOREIGN EXCHANGE HOLDINGS FOR THE PERIOD (\$139 MILLION IN APRIL ALONE) TO \$4,130 MILLION.

6. THE MONEY SUPPLY INCREASED 1.3 PERCENT IN APRIL

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PAGE 01 SEOUL 03934 02 OF 02 111850Z

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UNCLAS SECTION 2 OF 2 SEOUL 3934

(4.0 PERCENT SEASONALLY ADJUSTED) AND STANDS AT 35.3 PERCENT OVER APRIL 1977 LEVELS BUT ONLY 2.1 PERCENT SINCE DECEMBER. THE INCREASE WAS DUE TO A STRONG EXPANSION OF PRIVATE CREDITS DURING THE MONTH AS BOTH THE GOVERNMENT AND FOREIGN ASSETS PORTION OF THE MONETARY BASE DECLINED. ACCORDING TO A RECENT REPORT, THE BANK OF KOREA HAS DECIDED TO CURB PRIVATE SECTOR LOANS BY SUBJECTING PREVIOUSLY EXEMPT FOREIGN CURRENCY LOANS TO THE GOVERNMENT'S PRIVATE LOAN LIMITATION CEILING. ONLY LOANS FOR EXPORTS WILL REMAIN OUTSIDE THE CEILING. THE LIMIT FOR MAY HAS BEEN SET AT 200 BILLION WON (\$413 MILLION).

7. THERE WAS WELCOME NEWS ON THE PRICE FRONT, AT LEAST FROM THE OFFICIAL INDICES. CONSUMER PRICES REPORTEDLY DROPPED 0.1 PERCENT IN APRIL (UP 0.1 PERCENT SEASONALLY ADJUSTED) AS THE RESULT OF A 0.9 PERCENT FALL IN FOOD PRICES ESPECIALLY

FOR RICE, BEEF AND SOME VEGETABLES. DESPITE THE DECLINE
THE OFFICIAL INDEX IS UP 6.2 PERCENT FROM DECEMBER. ON THE
OTHER HAND, WHOLESALE PRICES WERE UP 0.6 PERCENT IN APRIL
OR 5 PERCENT SINCE DECEMBER. IN CONTRAST TO THE CONSUMER
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PAGE 02 SEOUL 03934 02 OF 02 111850Z

INDEX, A 0.9 PERCENT INCREASE IN FOOD PRICES PACED THE
WHOLESALE PRICE INDEX. THE WHOLESALE INDEX SHOWS FOOD COSTS
UP 9.8 PERCENT SINCE DECEMBER COMPARED TO A 5.7 PERCENT RATE
FOR THE CONSUMER INDEX. THERE ARE SOME INDICATIONS THAT THE
CONSUMER INDEX MAY, IN FACT, BE UNDERSTATING THE RISE IN
FOOD COSTS.

8. DESPITE THE INCREASED COST OF LIVING AND TIGHT CREDIT,
TOTAL SAVINGS IN THE ECONOMY CONTINUES TO SHOW IMPRESSIVE
GAINS. SAVINGS INCREASED NEARLY 25 PERCENT IN APRIL AND
AT THE MONTH'S END INCREASED SAVINGS FOR THE YEAR STOOD
AT 1,109 BILLION WON. SAVINGS DEPOSITS, AT BOTH BANKS AND
OTHER FINANCIAL INSTITUTIONS, CONTINUE TO BE THE FAVORED
MEDIUM FOR SAVERS.

9. COMMENT: A STRONG FIRST QUARTER WHICH IS CARRYING OVER
INTO THE SECOND PRESAGES A EXCELLENT FIRST HALF FOR THE
KOREAN ECONOMY. ACCORDING TO ONE SOURCE, FIRST QUARTER
GNP DATA--TO BE RELEASED IN JUNE--MAY SHOW REAL GROWTH OF
NEARLY 15 PERCENT. ALREADY SOME COMMENTATORS ARE ENVISAGING
A 15 PERCENT PLUS YEAR FOR 1978. HOWEVER, SOME CAVEATS ARE IN
ORDER. THE TORRID CONSTRUCTION BOOM IS PRESSING ON RESOURCES,
AND IT IS A QUESTION HOW LONG THE PRESENT PACE CAN CONTINUE.
A DROUGHT IS THREATENING AGRICULTURAL PRODUCTION. IF IT
CONTINUES LONG ENOUGH, INDUSTRY MAY ALSO BE AFFECTED. INFLATION,
CHECKED BY CONTROLS TO SOME EXTENT, REMAINS A BASIC PROBLEM.
NEVERTHELESS, DESPITE THESE THE ECONOMY IS IN FOR A GOOD
YEAR.
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